

## **MINUTES OF STATE BUDGET AND CONTROL BOARD MEETING**

**February 8, 2011 -- 9:30 A. M.**

The Budget and Control Board (Board) met at 9:30 a.m. on Tuesday, February 8, 2011, in Room 101 in the Solomon Blatt Office Building, with the following members in attendance:

Governor Nikki R. Haley, Chair;  
Mr. Curtis M. Loftis, Jr., State Treasurer;  
Mr. Richard Eckstrom, Comptroller General;  
Senator Hugh K. Leatherman, Sr., Chairman, Senate Finance Committee; and  
Representative Daniel T. Cooper, Chairman, Ways and Means Committee.

Also attending were Budget and Control Board Executive Director Eleanor Kitzman; Chief of Staff Marcia Adams and Division Director Rich Roberson; General Counsel Edwin E. Evans; Governor's Deputy Chief of Staff for Policy, Budget, and Cabinet Affairs Ted Pitts; Treasurer's Chief of Staff Bill Leidinger; Comptroller General's Chief of Staff James M. Holly; Senate Finance Committee Budget Director Mike Shealy; Ways and Means Committee Chief of Staff Beverly Smith; Board Secretary Delbert H. Singleton, Jr., and other Budget and Control Board staff.

[Secretary's Note: The Board met immediately following a meeting of the Tobacco Settlement Revenue Management Authority, the members of which are the Budget and Control Board members, *ex officio*.]

### ***Adoption of Agenda for Budget and Control Board***

Upon a motion by Mr. Cooper, seconded by Mr. Loftis, the Board adopted the agenda as proposed.

### ***Minutes of Previous Meeting***

Upon motion by Mr. Cooper, seconded by Senator Leatherman, the Board approved the minutes of the December 14, 2010, and January 13, 2011, Budget and Control Board meetings.

### ***Blue Agenda***

The Board approved blue agenda items, except as otherwise noted herein.

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***State Treasurer: Bond Counsel Selection (Blue Agenda Item #1)***

The Board approved the following notification of the assignment of bond counsel for conduit issues (for ratification of issuer's counsel only) as requested by the State Treasurer:

**CONDUIT ISSUES: (For ratification of Issuer's Counsel only)**

Description of Issue	Agency/Institution (Borrower)	Borrower's Counsel	Issuer's Counsel
\$1,350,000 SC JEDA	Sumter Family YMCA	Haynsworth Sinkler Boyd	Pope Zeigler
\$11,650,000 SC JEDA	Covenant Place of Sumter, Inc.	Haynsworth Sinkler Boyd	Nexsen Pruet

Information relating to this matter has been retained in these files and is identified as Exhibit 1.

***Division of General Services: Easements (Blue Agenda Item #2)***

The Board approved the following easements as recommended by the Division of General Services in accordance with the SC Code of Laws:

- (a) County Location: Colleton  
From: Budget and Control Board  
To: South Carolina Electric and Gas Company  
Consideration: \$700  
Description/Purpose: To grant a 0.213 acre easement for the relocation, installation, operation and maintenance of an overhead distribution electric line across the Ashepoo River along the southern side of US Highway 17, Ace Basin Parkway.
- (b) County Location: Union  
From: Budget and Control Board  
To: City of Union  
Consideration: \$1  
Description/Purpose: To grant a 2.386 acre easement for the installation, operation and maintenance of a natural gas pipeline on property of the Tyger River Correctional Institution.

Information relating to this matter has been retained in these files and is identified as Exhibit 2.

***Division of General Services: Real Property Transaction (Blue Agenda Item #3)***

The Board approved the following property conveyance as requested by the Division of General Services:

Agency:	Budget and Control Board (Forestry Commission)
Acreage:	10± acres
Location:	Off Broomstraw Road, Lane
County:	Williamsburg
Purpose:	To dispose of surplus property previously used by the Forestry Commission as a fire tower site.
Price/Transferred To:	Not less than appraised value / To be determined
Disposition of Proceeds:	To be retained by Forestry Commission pursuant to Proviso 80A.35.

In relation to blue agenda item #3, Mr. Eckstrom asked whether it would be possible to receive an inventory of the Forestry Commission's surplus fire tower sites that are for sale. Ms. Kitzman replied that would be done.

Information relating to this matter has been retained in these files and is identified as Exhibit 3.

***Division of Procurement Services: Procurement Audit and Certification (Blue Item #4)***

The Board was asked to receive as information that the Division of Procurement Services, in accordance with Section 11-35-1230 of the South Carolina Consolidated Procurement Code, reviewed the procurement system of John de la Howe School and that the chief procurement officers have determined, pursuant to S. C. Reg. 19-445.2022, that the School's audit results warrant a temporary suspension of authority from \$50,000 to \$25,000 because of extensive audit findings. The audit noted that the suspension of authority would be effective for one year at which time another procurement audit would be performed. The audit indicated that before that time, an interim review would be performed to verify the School's corrective action as outlined in the audit report.

Materials Management Officer Voight Shealy and Mary Cartledge with John de la Howe appeared before the Board on this item. Governor Haley noted that an audit was done at John de la Howe and that prior to the audit all of the information was shredded. Governor Haley said she cannot imagine a situation where an agency, a business, or a person who knows they are

about to be audited would shred every ounce of evidence. Ms. Cartledge said it is hard for her to believe and if it was not happening to her she would think that it was a script out of a movie. She said they were in the process of cleaning up the agency. She noted that their procurement person and accounts payable person are new to their positions. She stated the payables area was scanning the purchase orders and requisitions were being scanned into SCEIS and procurement gave all of its records to payables without scanning them. Ms. Cartledge said that payables did not know that procurement had not scanned its records before the records were shredded. She said when the audit was done they realized they did not have the procurement records. She explained that at the time this occurred they were short staffed, but since then they have taken steps to correct all of the findings that have been noted in the audit. She noted that they have hired an accounting director that will help them in this process. She said they regret this has happened and if one looked at their records in years prior to this incident, one would see that they have followed the procurement code. She stated this was an unfortunate incident that happened at this time. She offered her assurances that the agency did have the records and they are now scanning and keeping paper copies of everything they are doing.

Governor Haley thanked Ms. Cartledge for the changes the agency made. She noted that the agenda item reflected that “the School’s audit results warrant a temporary suspension of authority from \$50,000 to \$25,000”. Governor Haley said she is still not comfortable with that and proposed that every ounce of purchasing or procurement for the School has to be overseen by the Board until the Board is confident that this situation has been corrected. She said she appreciates the fact that the School has a new accounting director and has made changes, but \$25,000 is still a very high ceiling for her. She said when looking at blanket purchases for \$3,000 and things with no receipts, in this type of budget year when trying to find accountability, it is best for the School and best to have true credibility in the system by making sure that every ounce of the School’s procurement is overseen.

Governor Haley moved to have the Board oversee the School’s entire procurement process until better confirmation is given that the School is handling this situation appropriately. Ms. Cartledge said they understand Governor Haley’s position and that they would like for the Materials Management Office (MMO) to come back to the School as soon as possible to see that they are in compliance with the procurement audit.

Mr. Eckstrom asked Mr. Shealy what oversight of the School would entail for MMO and what would the level of effort be. Mr. Shealy said there is a great distance between Columbia and McCormick and the School has a student population whose needs have to be met. He stated that he is not certain what oversight he would be instructed to do. He said that the School would need the ability to take immediate procurement action on occasion. He said he did not know how feasible it would be to do everything for the School. Governor Haley said that according to the audit the School has lost the ability to do anything. She said given that there is no documentation and that items were shredded prior to an audit the School has lost every ability to do anything. She said that if the Board has to meet weekly then that should be done, but that they must come together in a way that they know that every dollar is accounted for and the procurement is smart. She stated this is the reason why a Department of Administration is needed and greater oversight given into the procurement process. She noted that this was found with John de la Howe and she is worried where else this might be happening. She said that this has happened with Accela and LLR and the \$5 million computer system. She said that the oversight of the procurement process for John de la Howe should not be seen as something that is being done just for that school, but how oversight will be done going forward for all of state government. She said this is a real problem that is on her watch and whatever it takes to protect those dollars should be done.

Senator Leatherman commended Mr. Shealy and the audit staff for catching this incident. He asked Governor Haley whether it was her intent to have the Board assign a person at John de la Howe to help make the decisions when proposed purchases come up in order for the School to continue operating. Governor Haley commented that there will be planning involved and the School will need to plan a week in advance on their weekly budgets for anything they need. She said if someone has to be assigned on a weekly basis to look at their budget and look at what the School is buying to make sure the School is accurately doing the paperwork the way it should be then that should be done. She commented that she does not want to stop the operation of the School, but wants everyone to have comfort that they are doing the right thing and for the Board to feel confident that it has fixed a problem.

Senator Leather further commented that he would feel more comfortable if Mr. Shealy would assign a person at John de la Howe until this issue is resolved. Governor Haley said that

she agreed with Senator Leatherman. Mr. Eckstrom said that would be a very effective control, but the question is one of cost. Mr. Eckstrom asked Mr. Shealy how many people he had on staff and said that his understanding is that the staff is very bare bones. Mr. Shealy said that there are 12 vacancies and 62 FTEs (full time employees). He suggested that someone be assigned to communicate with John de la Howe every time before they process a procurement which could be done telephonically, by computer, or by fax. Mr. Eckstrom said that was going to be his suggestion and to have the audit staff go back to the School in 90 days to see if the School has been following the directions that have been given to them on a daily basis. He said this would be done in lieu of assigning someone permanently to the School. He said the Board has to be careful that it does not distract the procurement audit staff from auditing agencies with larger budgets. He said that Mr. Shealy's suggestion is a good suggestion and would accomplish as much as assigning someone to John de la Howe permanently.

Upon a motion by Mr. Eckstrom, seconded by Mr. Loftis, the Board received as information that the Division of Procurement Services, in accordance with Section 11-35-1230 of the South Carolina Consolidated Procurement Code, reviewed the procurement system of John de la Howe School and that the chief procurement officers have determined, pursuant to S. C. Reg. 19-445.2022, that the School's audit results warrant a temporary suspension of authority from \$50,000 to \$25,000 because of extensive audit findings. However, the Board directed that all of John de la Howe School's procurements be overseen by the Division of Procurement Services. The Board further directed the Procurement Services Division to conduct a review of John de la Howe School's procurement practices in ninety (90) days and report back to the Board the results of the review

Information relating to this matter has been retained in these files and is identified as Exhibit 4.

***Executive Director: Revenue Bonds (Blue Agenda Item #5)***

The Board approved the following proposals to issue revenue bonds:

- a. Issuing Authority: Barnwell County  
Amount of Issue: \$1,600,000 Taxable Hospital Facilities Revenue Refunding Bonds (\$1,600,000 refunding involved)  
Allocation Needed: -0-

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Name of Project: Barnwell County Hospital  
Employment Impact: retain current jobs  
Project Description: refinance outstanding indebtedness to capture cost savings based on interest rate reduction  
Bond Counsel: Michael E. Kozlarek, Parker Poe Adams & Bernstein LLP  
(Exhibit 5)

***Executive Director: Economic Development (2011 Ceiling Allocations) (Blue #6)***

The initial balance of the 2011 state ceiling allocation is \$439,409,580. In accord with Code Section 1-11-520, \$175,763,832 (40% of the total) was designated as the state pool and \$263,645,748 (60% of the total) was designated as the local pool. There is presently a state ceiling balance of \$439,409,580 remaining for 2011. Allocation requests for 2011 totaling \$2,607,000 have been received thus far.

Relating to requests for calendar year 2011 ceiling allocations, the Board was asked to authorize shifts as necessary between the state pool and the local pool for the remainder of the calendar year.

The recommendation from the Department of Commerce for allocations for this cycle totaled \$2,607,000. The Department of Commerce made the following recommendation for allocation from the local pool:

Marion County          Supremes, LLC, \$2,607,000.

In accord with Code Section 1-11-500 et seq. and upon the recommendation of the Department of Commerce, the Board granted the following tentative ceiling allocation from the local pool:

Marion County          Supremes, LLC, \$2,607,000.

The Board also authorized shifts as necessary between the state pool and the local pool for the remainder of the calendar year.

Approval of the recommended request leaves an unexpended state ceiling balance of \$436,802,580 (state pool - \$175,763,832; local pool - \$261,038,748) to be allocated later in the calendar year.

Information relating to this matter has been retained in these files and is identified as Exhibit 6.

***Office of State Budget: Notification of Agency Deficit – Department of Corrections (Reg. 1)***

At the December 14, 2010, Board meeting the Board carried over consideration of the Department of Correction's request for recognition of a FY 2010-11 operating deficit and directed that the item be placed on the agenda for the next Board meeting. The Department of Corrections (SCDC) notified the Office of State Budget that it is projecting a FY 2010-11 operating deficit of \$7,524,876. For each of the past three years the State Budget and Control Board has recognized a General Fund Deficit for the Department of Corrections. For FY 2007-08, FY 2008-09 and FY 2009-10 the approved deficits were \$3.9 million, \$45.5 million and \$28.8 million respectively. The actual deficit for FY 2009-10 was \$27.1 million. As a part of the deficit recognition for FY 2007-08, the Board required the Department to report monthly on every major expenditure category as compared to their budget. SCDC has submitted those reports which have been forwarded to each Board member.

For the current year the Department projects expenditures will total \$402.5 million after having implemented a mandatory five-day furlough for all agency staff including correctional officers. The five-day furlough is estimated to save the agency \$3.8 million for the fiscal year. This expenditure projection for the fiscal year represents an overall increase of \$2.5 million as compared to FY 2009-10 overall expenditures of \$397.8 million excluding \$2.2 million allocated to the Department for the employer's share of the cost associated with the scheduled January 1, 2011, increase in the State Health Plan premium. Factors contributing to the projected increase in expenditures include an increase in the Department's unemployment compensation premium, increased energy cost and increased repair and maintenance costs for equipment. Other funds revenue is expected to stabilize as compared to the previous fiscal year after having declined in FY 2009-10 by \$4.4 million as compared to FY 2008-09. The average daily inmate population for FY 2009-10 was 24,400. As of January 15, 2011 the inmate population stood at 22,986.

For the current fiscal year recurring state funds including State Health Plan allocations total \$296.4 million. Non-recurring ARRA and Proviso 90.16 (Increased Enforcement Collections) funds total \$49 million. Therefore, FY 2010-11 state general fund, ARRA and non-recurring funds for the Department total \$345.4 million. For FY 2009-10 total expenditures from state appropriated sources (including ARRA funds) totaled \$350 million. The Department has also requested permission to retain unobligated state matching funds payable to the Department



of Health and Human Services (DHHS) under Proviso 90.21 which is estimated at \$128,000. Therefore, the deficit can be estimated at \$7,396,876 if the agency is allowed to retain Proviso 90.21 funds. The Department's deficit projection could be reduced further if additional furlough days were mandated and/or if a portion of the agency's cash balances brought forward from last fiscal year were dedicated to reducing the shortfall. Each one-day agency-wide furlough is estimated to save \$760,000.

Budget Office Director Les Boles and Marsha Kjoller with the Department of Corrections (Corrections) appeared before the Board on this matter. Also present at the meeting was William Byars, the nominee for Director of Corrections. Mr. Boles advised the Board that the current projection for Correction's budget deficit is \$4.8 million. He said that Corrections is proposing to have an additional five-day furlough and keep vacant some FTE positions which will help generate savings.

Mr. Cooper noted that for the past three to five years Mr. Boles has been working with Corrections on its deficits. He said last year everyone agreed that \$350 million would fund Corrections and that legislative changes were made that would give Corrections roughly \$34 million in savings. He said that Corrections was funded at \$342 million and with the legislative changes of \$34 million in savings there should have been a surplus. He also said that Corrections is down over 600 inmates over the prior year. Mr. Cooper noted that no one has come to him to explain why Corrections needs to run a deficit. He asked Mr. Boles if he could explain why Corrections needed to run a deficit. Ms. Kjoller said being down 600 inmates only affects their food budget. She said that until they get to the point where they can close an entire housing unit and reduce some staff there is not much in the line of savings in the reduction of inmates. Mr. Cooper asked how many inmates are in a housing unit. Ms. Kjoller replied there are between 196 and 250 inmates in a housing unit depending on whether they are double or triple celled. She said that with regard to savings from sentencing reform they have not seen any action from the judicial branch of government that has allowed them to receive those savings. She noted that they have not seen any changes in the sentences that have been passed down and have not seen a reduction in the number of inmates they are getting on a monthly basis. Mr. Cooper further asked what accounts for the drop of 600 inmates. Ms. Kjoller said that at the beginning of every year they see a large drop in January because of Christmas and this year

because of the snow in January. She said that if courts are not in session they do not get inmates. She said that being 600 inmates down is just the count at this time. Mr. Cooper said that it seems as if there could be some consolidation of institutions since Corrections is down 600 inmates. Ms. Kjoller said that the inmates are spread out over 28 institutions. Mr. Cooper said he wanted to carry this item over to the next meeting in order to get a better answer.

Senator Leatherman said that he concurs with Mr. Cooper. He asked Ms. Kjoller what the projected deficit is once Corrections takes its cost saving measures. Mr. Boles said the savings would be \$4.8 million which would be one percent of their projected expenditures. He said that the Board could carry the item forward and let them to continue to work with Corrections to get the deficit down. Senator Leatherman said that he would like this item to be carried over to give Mr. Byars the chance to really dig in at Corrections and do great things. He noted that Corrections has run a deficit for the last three to five years and that there is some system change that could help Corrections.

Mr. Eckstrom inquired as to what the actual deficit was last year and the year before. Mr. Boles said that in fiscal year 2009-2010 the deficit for Corrections was \$27.1 million and in 2008 and 2009 the deficit was \$45.5 million. Mr. Eckstrom noted that in two years Corrections' deficit has gone from \$45.5 million down to \$4.8 million. Mr. Boles said the final funding for last year was \$350 million once the deficit was approved and another \$50 million from Corrections' other funds for a total of \$400 million. Mr. Eckstrom asked what the funding was for the prior two years. Mr. Boles said in 2008-2009 the funding was approximately \$400 million and in 2007-2008 Corrections' expenditures were approximately \$423 million. He noted that is the time that statewide budget reductions began and Corrections' budget dropped about \$20 million. Mr. Eckstrom further noted that for fiscal year 2010-2011 Corrections' various other revenue sub-funds indicated an accumulation of over \$7 million. He asked about the potential of using some of those other revenues to offset the current year deficit. He noted the canteen revenues had a beginning balance of \$3.2 million. Ms. Kjoller stated they maintain in the canteen and the prison industries account about \$1.5 million for cash flow purposes. She said other than that they will transfer funds out of that revenue sub-fund to cover programs and services at the agency.

In further discussion, Governor Haley noted to Mr. Byars this is the third year of deficits

at Corrections and said the deficits must stop. She said it is not something she wants on her watch. She asked Mr. Byars to tell the Board what his plans are to avoid future deficits at Corrections. Mr. Byars said that in the short-term he needed to first get to the agency. He stated there are a number of things he must learn. He said facilities will need to be closed by dorms. He noted that what else must be done is to look at the bunking of inmates at the agency. He said that as the population is lowered they may be able spread things out. He stated that numbers must be reduced in certain categories and that a level will have to be reduced in a facility by itself so that a dorm may be closed. He said if the reductions are across different levels it may not result in the elimination of a dorm. He said that he will first have to dig through the numbers and cannot tell what they are at this time. Mr. Byars stated that he does not want to go in and take more furloughs for security reasons because of the risk of staff and inmates being injured. He said if there is less staff there will be more injuries. He said he is not willing to make that call until he gets into the agency and sees how many people he needs for the different levels. He commented that if one really wants to drop the population behind the fence then there needs to be a buildup of what is in the community. He noted that it is going to take time to see a turnaround at Corrections because the turnover in inmates is not quick like it is at DJJ. He further stated that he needs to have flexibility in releasing inmates who are not a danger, but can best be monitored on the outside.

Mr. Cooper commended Governor Haley in her selection of Mr. Byars as the director at Corrections. He said he does not know if Mr. Byars can make the deficit go away, but he would like to give Mr. Byars more time develop a plan to handle the deficit.

Mr. Eckstrom asked whether there is the greatest flexibility in releasing inmates who are in level one. Mr. Byars said the greatest flexibility will be with level one inmates and with youthful offenders.

Senator Leatherman commented that he has heard that Mr. Byars may have to close two or three prisons. Mr. Byars said a past study shows that if Corrections was forced to reduce its budget and close prisons there is a schedule that is laid out as to what prisons to close and how much would be saved and which inmates could potentially be released if they had releasing authority.

Upon a motion by Cooper, seconded by Mr. Loftis, the Board carried over a request by

the Department of Corrections to recognize an operating deficit not to exceed \$4,800,000 pursuant to Section 1-11-495 of the S.C. Code of Laws.

Information relating to this matter has been retained in these files and is identified as Exhibit 7.

***Office of State Budget: Notification of Agency Deficit – Department of Health and Human Services (Regular Session Item #2)***

At the December 14, 2010, Board meeting the Board carried over consideration of the Department of Health and Human Services request for recognition of a FY 2010-11 operating deficit and directed that the item be placed on the agenda for the next Board meeting. The Department of Health and Human Services notified the Office of State Budget of a projected deficit within the State's Medicaid program estimated at approximately \$228 million. The Department indicates that since December 2007 more than 100,000 individuals have enrolled in the Medicaid program after having experienced a decline in enrollment for the three year period prior to that time. There are currently over 800,000 South Carolinians enrolled in the Medicaid program with the fastest growing category of adult enrollment occurring among low income families which is primarily due to the recent economic downturn. Forty-three percent of the state's children are on Medicaid. The Department indicates federal prohibitions against altering eligibility policies and procedures restrict its ability to affect enrollment growth. In addition, state legislative restrictions have hampered the agency's ability to make reductions in expenditures not tied to federal mandates.

Enrollment and expenditure trends indicate overall Medicaid expenditures will increase by 10% as compared to last fiscal year. As a result, the Department currently projects overall state match needs from all sources of eligible funds at \$1.432 billion. However, available state matching funds are estimated at \$1.205 billion including \$127 million associated with the federal government's extension of the enhanced Federal Medicaid Assistance Percentage (FMAP) rate for the last two quarters of the state fiscal year. Therefore the Department currently projects the shortfall at approximately \$228 million. The Department has initiated several measures prior to this fiscal year which the agency estimates has reduced overall state matching needs in the current year by \$22.9 million.

Mr. Boles appeared before the Board on this item along with DHHS Director Anthony Keck. Mr. Boles noted the agency's growth is running at 10% and that 5% of that is enrollment growth and the other 5% is from the normal CPI and utilization growth. He said the agency is limited in how it can manage the deficit based on federal restrictions and state provisos. Mr. Keck advised the Board that the root-cause of the deficit is that Medicaid is an open-ended entitlement program with significant exposure for the State. He said the exposure is in terms of the number of people who are eligible for the program, the number of people who actually enroll in the program, and the cost of the services delivered to them. He noted the amount of exposure can be considerable. He said they have to make estimations of what those things will cost and if they estimate too high, money is put into the program that could have been used elsewhere. He said if the estimate is made too low then they can run into a deficit. He noted that this is typical of the commercial insurance industry that runs in cycles of surplus and deficit. He further stated that it is the agency's job to make these projections within the best of its ability and that being 20% off is not a close enough estimation. He said that going forward to the end of the year they are very limited in their ability to make changes to affect the deficit before the end of the fiscal year because of the federal restrictions and the state provisos that prevent the agency from reducing reimbursement rates.

Governor Haley asked Mr. Keck what would the proviso giving him flexibility to reduce provider rates mean for his agency's budget. Mr. Keck replied that typically for every one percent reduction in provider rates, not including nursing homes, there is about \$2.1 million in savings that fiscal year. He said that annualizes to about \$11 million yearly in the provider program. He said reducing rates by 10% means the savings would be ten times that number. He stated the savings are important because the money could be spent elsewhere more productively if the deficit did not have to be recognized. Mr. Keck further stated having the flexibility to reduce provider rates will add certainty in terms of the direction the agency is headed in managing the Medicaid program. He said that if the flexibility provisos are not put into place the only other place they can turn to for savings is in optional services. He noted that optional services are optional in name only. He said that the entire pharmacy program is considered optional by Medicaid as well as all as of the ICFMR (intermediate care facility for mental retardation) program for state institutions for the developmentally disabled. He said they really

do not have the flexibility to manage the program in a smart way.

In further discussion, Mr. Eckstrom asked whether a good rule of thumb is that if a service is not permitted under the State Health Plan for State employees then the service should be considered an optional service for Medicaid that could be eliminated. Mr. Keck stated that those are good benchmarks to start to look at in terms of the services that are offered and service limits that are offered.

Governor Haley noted that the deficit started at \$228 million and asked Mr. Keck what the status of the agency's budget was. Mr. Keck replied that with the implementation of the reductions that went into effect February 1<sup>st</sup> or will go into effect April 1<sup>st</sup> the deficit will be taken down by \$2.9 million. Governor Haley asked what will happen if the deficit is not resolved. Mr. Keck said that they could potentially run out of money to pay providers around the third week of March. He said that at that point they become in default of prompt payment laws and will be severely penalized for that financially thereby adding to the deficit. Mr. Eckstrom asked whether those penalties would be assessed through a reduction in the federal participation rate. Mr. Keck said he assumed so and since they would not be drawing down federal funds for the rest of the year any penalty would be taken out of next year's funding.

Senator Leatherman said that he understands that the agency needs \$660 million next year to maintain the current level of service. He asked Mr. Keck how he will handle the situation if no more money is appropriated to the agency. Mr. Keck stated they are working on three broad strategies. He said they are working on a reduction strategy although he does not immediately want to go to reimbursement rate cuts because he is most interested in pulling money out of provider lines through a variety of means to reduce inappropriate utilization. He noted that the second broad strategy is leveraging every state dollar to the greatest extent possible by smartly spending funding. He said the third broad strategy is for the legislature to decide how much it wants to supplement any remaining deficit. Senator Leatherman asked Mr. Keck how much money is needed. Mr. Keck said that by the end of the week they will have more detailed numbers on the reduction.

Governor Haley cautioned Mr. Keck that a deficit cannot happen again at the agency. She said that her administration is working with every cabinet agency in that regard. She noted that the Department of Social Services has worked to erase its \$28 million deficit and that her

administration will continue to work to reduce deficits. Governor Haley moved to accept recognition of the deficit.

Mr. Eckstrom commented that he has not thought of the State Medicaid program as a form of insurance enterprise, but from Mr. Keck's comments it has become obvious to him that is what it is. He asked Mr. Keck how he proposed to build reserves to smooth out the cyclical nature of cost and revenues affecting the program. Mr. Keck said he will work with the Governor's Office and the legislative budget chairmen on how to strengthen reserves. Mr. Eckstrom seconded Governor Haley's earlier motion to recognize the deficit.

Senator Leatherman amended Governor Haley's motion to recognize \$100 million of the agency's deficit to allow Mr. Keck to continue to work to further reduce the agency's deficit. He said that he understands that Mr. Keck may not be able to take care of the remaining portion of the deficit, but he may come back to the Board and inform the Board of what he has been able to do and let the Board act upon what he has done. Mr. Cooper seconded Senator Leatherman's motion.

Upon a motion by Senator Leatherman, seconded by Mr. Cooper, the Board, pursuant to Section 1-11-495 of the S.C. Code of Laws, determined that the operating deficit incurred by the Department of Health and Human Services is unavoidable and recognized the operating deficit not to exceed \$100,000,000; directed that the presiding officers of the House and Senate be notified of operating deficit; and directed the Office of State Budget to continue working with the Department to reduce the deficit.

After the vote on the matter, Mr. Eckstrom commented that the Board's action is what should be done with all agencies. He noted that it comes close to taking a zero based budgeting approach. He said that this is an approach that would steer the State clear of dilemmas like the present situation. He said that if that kind of scrutiny and creative effort went into operating agencies there would be a considerable reduction in the cost of the operation of state government. Governor Haley commented that is what was done at DSS and that the level of savings that the agency found was amazing.

Information relating to this matter has been retained in these files and is identified as Exhibit 8.

***Office of State Budget: Permanent Improvement Projects (Regular Session Item #3)***

Governor Haley stated that it would be prudent for the Board to delay these projects until the Board can determine whether the projects are job creators. She said that she knows that some are training for Boeing and other things, but would request that the projects be postponed until they can further deal with deficits and look at the budget and look into the logic behind the universities and what they need going forward. Senator Leatherman asked Governor Haley whether her position would be to take these items up at the next Board meeting to which she replied that is correct. Senator Leatherman asked when was the next scheduled Board meeting. Ms. Kitzman replied that the Board did not have a meeting scheduled. Governor Haley stated that she assumed the meetings would be every month. Ms. Kitzman said that the Board members can be polled to see what date in March every Board member is available. Mr. Eckstrom commented that Governor Haley's recommendation is a prudent approach to take.

Mr. Loftis stated that he is uncomfortable delaying these projects in mass. He said that some of the projects need to be addressed now. He said that postponing some of the projects will end up costing the State money. He noted that there are different kinds of projects and that they are not all created equal. Mr. Loftis said that large institutions should not be kept from keeping up their infrastructure.

Senator Leatherman asked whether any of the projects are life-safety projects. Governor Haley invited anyone to speak up whose project involved life-safety concerns or training related to economic development. Mr. Loftis pointed out item (k) for the Medical University of South Carolina (MUSC) for a chilled water riser replacement. Marion Woodbury with MUSC spoke to the need for MUSC's projects. He noted the Thurmond Gazes Building, item (j), is not an immediate life-safety issue, but that it could be in the future. He pointed out that the building was not built as well as it should have been and they have a number of problems in the building with the air and exhaust system. He also stated that there is mold in certain areas of the building. Mr. Loftis asked Mr. Woodbury about the age of the building to which Mr. Woodbury responded that the building was about 14 years old. Mr. Loftis further asked when the problems started with the building. Mr. Woodbury said the problems started about five or six years ago.

Mr. Loftis further asked whether there was any litigation concerning the building. Mr. Woodbury said that none was imminent. Mr. Loftis commented that there never seems to be any



litigation concerning state buildings after the fact. He said that in the real world contractors and builders are responsible when something goes wrong, but that there does not seem to be much in the way of litigation with regard to state buildings. Mr. Woodbury said that they looked at that with this building, but because the building was value engineered and because they made certain decisions to get the project within budget they determined it would not be wise to go through a litigation process. Mr. Eckstrom noted that the State has sued suppliers when faulty materials have been used. He said he thinks that if the statute of limitations has not tolled then the State should continue to pursue its interests.

Senator Leatherman asked Mr. Woodbury if he thought the next 30 days would be a life or death timeframe for this matter. Mr. Woodbury said that it is not.

Mr. Cooper asked whether item (p) concerning the fire alarm system was a life safety issue. Mr. Woodbury said item (p) comes closest to being a real problem and asked that it be approved, but they could wait 30 more days if the Board wanted them to do so. Senator Leatherman also asked whether item (n) for exhaust and emergency power upgrades needed to be approved now. Mr. Woodbury said that he puts that item in the same category as the fire alarm system in that it needed to be done as soon as possible. He said that he did not want to push the Board members into doing something they were not comfortable doing, but MUSC has evaluated the projects and believe they should be done as soon as possible. Senator Leatherman asked whether the power going out without emergency power could be detrimental to the occupants of the building. Mr. Woodbury said that if the power went down it would leave them exposed to some liability. Senator Leather advised the Board that MUSC may be exposed to liability if the power goes off and the exhaust system does not work.

Mr. Eckstrom asked whether Mr. Woodbury was concerned that in the next 30 days that failure of either system was imminent. Mr. Woodbury said he did not know whether it was imminent, but it could happen in 30 days. Mr. Woodbury advised that the Haborview Office Tower for item (k) has corroded pipes and they are in imminent danger of failing. Governor Haley said that she did not want to get into picking and choosing projects on the basis of importance, but strictly on safety. Mr. Woodbury said that pipes in the Haborview Office Tower are in imminent danger of failing which could cause a leak and shut down the entire building. Mr. Eckstrom asked whether the danger would be the danger of drowning. Mr. Woodbury said it

would be the danger of not having heating and air conditioning. Senator Leatherman said that a leak in the chilled water pipes does not rise to the same level as the exhaust project.

Upon a motion by Governor Haley, seconded by Mr. Loftis, the Board carried over the following permanent improvement project establishment requests and budget revisions which have been reviewed favorably by the Joint Bond Review Committee. Permanent improvement project items (n) and (p) for the Medical University of South Carolina were approved by the Board;

**Establish Project for A&E Design**

- (a) Summary 3-2011: JBRC Item 1. Coastal Carolina University  
Project: 9580, Softball Complex Improvements  
Request: Establish project and budget for \$30,000 (Other, Horry County Higher Education Commission funds) to begin design work to make improvements to the women's softball complex at Coastal Carolina. The work will include constructing a clubhouse with team and coaches' locker rooms, improving the home dugout, concessions and fan restrooms, adding an additional hitting/pitching tunnel, improving the existing tunnel, and upgrading the pressbox. The university is deficient in stadium, practice and team facilities for women's softball compared with men's baseball and with conference and peer institution softball programs. Deficiencies include lack of a dedicated locker and team room, inadequate hitting and pitching tunnels, and inefficient media space and fan amenities. Upgrades are needed to ensure compliance with federally mandated Title IX guidelines.
  
- (b) Summary 3-2011: JBRC Item 2. Coastal Carolina University  
Project: 9581, Baseball Complex Improvements  
Request: Establish project and budget for \$120,000 (Other, Institutional Capital Project Funds) to begin design work to construct a new baseball stadium at Coastal Carolina. The work will include demolishing the existing facility, replacing it with a new grandstand with 2,500 permanent seats and 3,000 additional seats on grass berms, and constructing restroom and concession areas, media work space, and a team clubhouse with team, coaches' and umpires' locker rooms and an athletic training room. The university is deficient in stadium and team facilities for its baseball program compared to other Division I baseball programs in the state. Deficiencies include overall seating capacity, ADA required seating and restroom facilities, inadequate media work space, and sub-standard public restrooms and concession areas. These deficiencies have forced the university to move baseball events, including NCAA Regional and Super Regional championships, to an off-campus venue.
  
- (c) Summary 3-2011: JBRC Item 3. Coastal Carolina University  
Project: 9582, Student Center Annex Construction

Request: Establish project and budget for \$360,000 (Other, Renovation Reserve/Plant Expansion funds) to begin design work to construct additional space for student activities at Coastal Carolina. The work will include constructing two, approximately 50,000 square foot annexes to the existing 28,980 square foot student center. The existing center was constructed in 1978 when the enrollment was 1,760 students and the Fall 2010 enrollment was 8,706. The student center provides only 5,652 square feet of meeting room, game room and lounge space and is predominantly used for student activities office space, dining space, and food service preparation. The center lacks lobby, lounge and general social space for students and, as the university has grown, smaller social spaces within academic buildings have been renovated to meet other space needs. Additional student life space will improve student retention and provide space for after class activities to develop a stronger student community on the campus.

(d) Summary 3-2011: JBRC Item 4. Lander University

Project: 9532, Student Housing Construction

Request: Establish project and budget for \$240,000 (Other, Housing Reserve funds) to begin design work to construct a new 300-bed student housing facility at Lander University. The facility will include 300 bedspaces in approximately 80,000 to 120,000 square feet, a small dining hall, and flexible floor spaces for meetings and student activities. The university currently has 1,096 beds on campus while housing 407 students in leased property off campus. Constructing new housing will allow the university to begin eliminating off campus housing to meet the university's mission, to provide swing space for other housing renovations, and to consider demolishing older, antiquated housing on campus.

(e) Summary 3-2011: JBRC Item 5. University of South Carolina

Project: 6085, Women's Quadrangle Renovations

Request: Establish project and budget for \$408,000 (Other, Housing Maintenance Reserve funds) to begin design work to renovate the Sims, McClintock and Wade Hampton residence halls on the Women's Quadrangle at USC. The work will include making interior repairs, installing new finishes and furnishings, upgrading the mechanical, electrical and plumbing systems, installing new elevators, and improving the buildings' shells and underground utilities. Conversion to suite-style rooms and renovating all three halls in the same year for cost savings will also be evaluated during the pre-design phase. The buildings were constructed between 1939 and 1959. The renovations are needed due to the age and condition of the existing systems and to keep the facilities in desirable condition. The work will significantly reduce the deferred maintenance associated with these buildings.

(f) Summary 3-2011: JBRC Item 6. University of South Carolina

Project: 6086, Preston College Bathroom and Flooring Renovations

Request: Establish project and budget for \$22,500 (Other, Housing Maintenance Reserve funds) to begin design work to make bathroom and flooring renovations at the Preston College residence hall at USC. The work on the 80 bathrooms will include replacing plumbing fixtures, repairing water leaks and damaged wall surfaces, replacing floor and ceiling tiles, painting and other associated repairs. The work in the 120 student rooms will include replacing the vinyl tile flooring with tile or simulated wood vinyl planking. Some of the plumbing and flooring are original to the 1939 building. The plumbing systems are past their expected lives and leaking. The flooring replacements are needed to correct damage from the plumbing leaks and to protect the building from normal usage. The work will significantly reduce the deferred maintenance associated with this building.

(g) Summary 3-2011: JBRC Item 8. USC - Upstate

Project: 9541, Administration Building Repairs and Renovation

Request: Establish project and budget for \$60,000 (Other, Institutional Capital Project Funds) to begin design work to renovate the 43,000 square foot Administration Building at USC-Upstate. The building houses many central administrative functions and information technology services for the campus. The work will include replacing the mechanical, electrical and plumbing systems, upgrading the fire detection system, and renovating interior space to provide adequate and proper space for all building functions that directly support the academic mission. The building was constructed in 1969 and most systems are original to the building. They are outdated, past their useful lives, do not meet capacity needs, and replacement parts are no longer manufactured. The renovations will significantly reduce deferred maintenance associated with the building.

**Establish Construction Budget**

(h) Summary 3-2011: JBRC Item 9. University of South Carolina

Project: 6063, Sumter Street Safety Improvements

Request: Increase budget to \$1,000,000 (add \$985,000 Other, Institutional funds) to make pedestrian safety improvements along Sumter Street for USC. The project was established in June 2009 for pre-design work which is now complete. The work has been scaled back to match available funding and will include constructing a pedestrian/bicycle bridge and sidewalks connecting the bridge to the Band/Dance facility and the Blatt PE Recreation Field, installing additional street lighting, constructing stream bank protection, erosion control and water quality components, and landscaping. The work is needed to improve campus safety by addressing a hazardous situation that exists on Sumter Street where pedestrians cross over Rocky Branch Creek. The area is prone to flooding during storm events and has no connecting sidewalks or permanent bridge structure to cross the creek, which forces students to walk in the street. Energy savings and conservation measures will include the installation of energy efficient lighting. The agency reports the total projected

cost of this project is \$1 million and additional annual operating costs of \$297 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is November 2011 and for completion of construction is May 2012. (See Attachment 1 for this agenda item for additional annual operating costs.)

- (i) Summary 3-2011: JBRC Item 10. University of South Carolina  
Project: 6074, Spigner House Renovation  
Request: Increase budget to \$1,000,000 (add \$986,500 Other, Auxiliary funds) to renovate the 9,500 square foot Spigner House at USC. The project was established in February 2010 for pre-design work, which is now complete. The first floor will be renovated to provide space for business use suited for seminar classroom and conference space and the second floor will be renovated to create offices for the University's food service provider. The work will include replacing the mechanical, electrical, plumbing, and window systems, installing new fire suppression and fire alarm systems, upgrading water supply piping to the house, creating ADA compliant restrooms, restoring all interior finishes and repainting. The facility is unoccupied and renovations will adapt the space for new use. The building systems are outdated and do not meet current code requirements. The renovation will be done to LEED Silver certification and will include water efficiency, energy and atmosphere, materials and resources, and indoor environmental quality measures. The LEED cost benefit analysis shows a positive cost benefit of \$191,350 over 30 years. The agency reports the total projected cost of this project is \$1 million and additional annual operating costs ranging from \$85,880 to \$92,880 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is July 2011 and for completion of construction is February 2012. (See Attachment 2 for this agenda item for additional annual operating costs.)
- (j) Summary 3-2011: JBRC Item 11. Medical University of South Carolina  
Project: 9808, Thurmond Gazes Building Envelope and Exhaust Systems Renovations  
Request: Increase budget to \$7,000,000 (add \$6,895,000 Institution Bond funds) to renovate the exhaust systems and building envelope on the Thurmond Gazes Building at MUSC. The project was established in September 2010 for pre-design work which is now complete. The work will include replacing the exhaust system, providing a separate exhaust chase for two floors, sealing floor to floor penetrations, replacing wall flashing, recaulking and resealing windows, and replacing the exterior finish on the penthouse. The building lacks exterior envelope moisture resistance and mold and mildew are becoming a serious problem. The building exhaust system contributes to the problem because it runs at 100% all the time and there is not enough air supply to balance the system. This project, along with a previously approved air handler replacement, will correct the indoor air quality issues that exist in the building. Energy savings and conservation measures will include the installation of

energy efficient exhaust fans with variable speed drives, digital electronic controls, and phoenix valves to control return air and exhaust air flow. The agency reports the total projected cost of this project is \$7 million and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is August 2011 and for completion of construction is August 2012.

- (k) Summary 3-2011: JBRC Item 12. Medical University of South Carolina  
Project: 9809, Harborview Office Tower Chilled Water Risers Replacement  
Request: Increase budget to \$650,000 (add \$635,000 Institution Bond funds) to replace the chilled water piping risers in the Harborview Office Tower at MUSC. The project was established in September 2010 for pre-design work which is now complete. The work will include demolishing the existing chilled water supply system, which carries chilled water throughout the buildings for cooling, and installing a new system including pumps, air separators, expansion tanks, variable speed drives, and controls. The existing risers are 31 years old, severely corroded, and in danger of failure. Energy savings and conservation measures will include the installation of pumps with variable speed drives and digital electronic controls. The agency reports the total projected cost of this project is \$650,000 and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is July 2011 and for completion of construction is April 2012.
- (l) Summary 3-2011: JBRC Item 13. Medical University of South Carolina  
Project: 9810, Storm Eye Institute Sanitary Sewer Riser Replacement  
Request: Increase budget to \$560,000 (add \$551,600 Institution Bond funds) to replace the sanitary sewer risers in the Storm Eye Institute at MUSC. The project was established in September 2010 for pre-design work which is now complete. The work will include replacing the existing copper pipe risers with acid resistant polypropylene piping and repairing portions of walls and ceilings resulting from installation of the new piping. The risers drain laboratory waste from sinks and plumbing, are 35 years old, severely corroded, and a continuous source of leaks. They need to be replaced to prevent further damage to the building and ongoing maintenance issues. Energy savings and conservation measures are not applicable to this piping replacement project. The agency reports the total projected cost of this project is \$560,000 and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is August 2011 and for completion of construction is December 2011.
- (m) Summary 3-2011: JBRC Item 14. Medical University of South Carolina  
Project: 9811, Basic Science Building Dental Medicine Classroom/Office Renovation  
Request: Increase budget to \$2,600,000 (add \$2,561,750 - \$1,000,000 Institution Bond and \$1,561,750 Other, College of Dental Medicine Reserve funds) to renovate

approximately 22,253 square feet in the Basic Science Building for the College of Dental Medicine at MUSC. The project was established in September 2010 for pre-design work which is now complete. The work will include constructing two large, tiered lecture classrooms in the former dental clinic space, creating office and lab space for dental faculty, and abating asbestos where ceilings are disturbed. The work is needed to enable the College to increase class sizes to better address the demand for dental professionals in the state and to accommodate dental faculty relocating from another facility. The affected areas have not been renovated since the building was constructed 40 years ago. Energy savings and conservation measures will include the installation of energy efficient lighting, a lighting control system, an energy efficient HVAC system, and water-conserving plumbing fixtures. The agency reports the total projected cost of this project is \$2.6 million and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is August 2011 and for completion of construction is September 2012.

- (n) Summary 3-2011: JBRC Item 15. Medical University of South Carolina *[approved]*  
Project: 9812, Basic Science Building East Side Exhaust/Emergency Power Improvements  
Request: Increase budget to \$2,550,000 (add \$2,508,750 Institution Bond funds) to renovate the exhaust and emergency power systems in the east half of the Basic Science Building at MUSC. The project was established in September 2010 for pre-design work which is now complete. The work will include installing a new exhaust system to support planned conversion of space to research labs, installing floor to floor dampers to allow air flow control, and extending the emergency electrical power distribution system to support the research space. The east half of the building does not have a lab exhaust system and emergency electrical power distribution is not sufficient to support the planned research space. Floor to floor air control does not exist, which is inefficient and results in poor temperature and humidity control. Energy savings and conservation measures will include the installation of variable frequency drives, energy efficient motors and fans, electronic controls, and energy efficient lighting and insulation. The agency reports the total projected cost of this project is \$2,550,000 and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of construction contract is August 2011 and for completion of construction is April 2012. **[Secretary's Note: This item was approved by the Board.]**
- (o) Summary 3-2011: JBRC Item 16. Medical University of South Carolina  
Project: 9813, Basic Science Building East Side Air Handler Replacement  
Request: Increase budget to \$4,200,000 (add \$4,140,000 Institution Bond funds) to replace the air handler in the east half of the Basic Science Building at MUSC. The project was established in September 2010 for pre-design work which is now complete. The work will include installing a new 200,000 cubic feet per

minute air handler, chilled water and steam supply lines, and supply air ductwork and upgrading the electrical systems to support the new equipment. The existing air handler is 40 years old, original to the building, well beyond its useful life, and does not have adequate capacity to support labs and classrooms. Energy savings and conservation measures will include the installation of variable frequency drives, energy efficient motors and fans, electronic controls, and energy efficient lighting and insulation. The agency reports the total projected cost of this project is \$4.2 million and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is August 2011 and for completion of construction is May 2012.

- (p) Summary 3-2011: JBRC Item 17. Medical University of South Carolina *[approved]*  
Project: 9815, Basic Science Building Fire Alarm System Replacement  
Request: Increase budget to \$670,000 (add \$660,700 - \$450,000 Institution Bond and \$210,700 Other, Institutional Capital Project Funds) to replace the fire alarm system in the Basic Science Building at MUSC. The project was established in December 2010 for pre-design work which is now complete. The work will include installing a fully addressable network system for the building, replacing horns, strobe devices, pull stations, smoke detectors, the control panel and related devices, and connecting the new system to the campus network. The existing fire alarm system is 40 years old, obsolete, and not code compliant and does not have a voice announcement capability. Energy savings and conservation measures will include the installation of state-of-the-art energy efficient fire alarm devices. The agency reports the total projected cost of this project is \$670,000 and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is May 2011 and for completion of construction is October 2011. **[Secretary's Note: This item was approved by the Board.]**
- (q) Summary 3-2011: JBRC Item 18. State Board for Technical and Comprehensive Education  
Project: 6013, Piedmont - Newberry County Center Renovation  
Request: Increase budget to \$6,150,000 (add \$6,030,000 - \$3,933,100 Other, Newberry County and \$2,096,900 Other, Local College funds) to renovate approximately 45,000 square feet in a county-owned facility as the Newberry County location of Piedmont Tech. The project was established in February 2010 for pre-design work which is now complete. The work will include renovations to house general education classrooms, the veterinary technician program requiring wet labs, a surgery suite, and a boarding kennel, conference and meeting space, a learning resource center, computer rooms, an industrial arts lab area, and student vending and administrative space. Piedmont Tech will move the existing Newberry Center to meet current space, program design and parking needs. Existing facilities lack parking, have small rooms that do not meet current needs, are not energy efficient, and need building code upgrades.



Energy savings and conservation measures will include the installation of energy efficient HVAC and lighting systems, motion detectors, instant hot water heaters, low flow plumbing devices, additional insulation, and an energy management system. The agency reports the total projected cost of this project is \$6,150,000 and additional annual operating costs ranging from \$152,150 to \$167,744 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is September 2011 and for completion of construction is June 2012. (See Attachment 3 for this agenda item for additional annual operating costs.)

(r) Summary 3-2011: JBRC Item 19. State Board for Technical and Comprehensive Education

Project: 6015, Trident - Building 950 Renovation Phase II

Request: Increase budget to \$6,600,000 (add \$6,516,000 Other, Institutional funds) to renovate approximately 29,358 square feet in Building 950 at Trident Tech. The project was established in February 2010 for pre-design work which is now complete. The work will include renovations to create studios, labs, classrooms and offices for the Media Arts and the Fitness Specialist programs, student study and food service areas to support training in aircraft manufacturing, and an indoor classroom and office for the Electrical Line Worker program. The renovation is needed to provide space for Media Arts which has grown 72% in the last five years and is located in several buildings, to establish a Fitness Specialist program to fill a void in the area, to provide needed classroom space for the Electrical Line Worker program, and to provide study and food service areas for aircraft manufacturing students to eat and take breaks. The building will be renovated to LEED Silver certification and will include water efficiency, energy and atmosphere, materials and resources, and indoor environmental quality measures. The LEED cost benefit analysis shows a positive benefit of \$882,211 over 30 years. The agency reports the total projected cost of this project is \$6.6 million and additional annual operating costs ranging from \$199,930 to \$216,242 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is November 2011 and for completion of construction is November 2012. (See Attachment 4 for this agenda item for additional annual operating costs.)

**Increase Budget**

(s) Summary 3-2011: JBRC Item 20. Francis Marion University

Project: 9558, Center for the Performing Arts Construction

Request: Increase budget to \$34,180,000 (add \$1,680,000 - \$1,350,000 Other, Interest Earned on Private Gift and \$330,000 Other, Private Gift funds) to complete construction of the 73,665 square foot Center for the Performing Arts for Francis Marion University to house the university's fine arts programs, offices and classrooms. The project was established in September 2006 and is

expected to be completed in April 2011. During the construction phase, the university received interest earned on the private funds donated for the center's construction and additional private gift funds specifically to make additional enhancements to the new facility. The increase will fund these additional enhancements, including a security system and fencing, a water feature in front of the facility, an enhanced lighting package, acoustic curtains, automatic window shades, and onyx glazing on windows. Many of these were included in the original design as alternates but were not awarded due to budget considerations. The agency reports the total projected cost of this project is \$34,180,000 and additional annual operating costs ranging from \$934,800 to \$969,677 will result in the three years following project completion. (See Attachment 5 for this agenda item for additional annual operating costs.)

**Establish Project for Preliminary Land Studies**

- (t) Summary 3-2011: JBRC Item 21. Coastal Carolina University  
Project: 9578, Coastal Science Center Building and Land Acquisition  
Request: Establish project and budget for \$20,000 (Other, One Cent Sales Tax funds) to procure the investigative studies required to adequately evaluate property prior to purchase. Coastal Carolina is considering the purchase of 10.62 acres of land with a 69,480 square foot building on its east campus. The building is currently leased and provides office and classroom space for the Psychology, Sociology, Computer Sciences and Marine Sciences departments. The investigative studies will enable the university to make an informed decision regarding exercising the purchase option associated with the current lease. The facility provides much needed office and classroom space, including 40 offices, ten classrooms, a lab and work spaces.
  
- (u) Summary 3-2011: JBRC Item 22. Coastal Carolina University  
Project: 9579, Student Health Services Building and Land Acquisition  
Request: Establish project and budget for \$20,000 (Other, One Cent Sales Tax funds) to procure the investigative studies required to adequately evaluate property prior to purchase. Coastal Carolina is considering the purchase of 2.58 acres of land with a 7,884 square foot building on its main campus. The building is currently leased and provides office space for Student Health and Counseling Services. The investigative studies will enable the university to make an informed decision regarding exercising the purchase option associated with the current lease. The facility provides much needed administrative space including 16 offices, two conference rooms, ten exam rooms, and a nurse's station. The acreage associated with the purchase will also provide the building site for the university's new Public Safety facility.

Information relating to this matter has been retained in these files and is identified as Exhibit 9.

***Office of State Budget: Real Property Acquisition (Regular Session Item #4)***

Upon a motion by Mr. Cooper, seconded by Mr. Loftis, the Board approved the following real property acquisition as recommended by the Office of State Budget. With exception of Mr. Eckstrom, all Board members voted for the item.

(a) <b><u>Agency:</u></b>	<b>Coastal Carolina University</b>
Acreage:	3.06± acres
Location:	Off of Chanticleer Drive West in Conway
County:	Horry County
Purpose:	To construct a new academic classroom/office building.
Appraised Value:	N/A
Price/Seller:	Donation / Coastal Educational Foundation
Source of Funds:	N/A
Project Number:	H17-9576
Environmental Study:	Approved
Building Condition	N/A
Assessment:	
Additional Annual Op Cost/SOF:	No additional annual operating costs will result from the donation. Construction of a new academic classroom/office building on the site is estimated to cost \$12 million and will be funded with Other, One Cent Sales Tax and Institutional Capital Project Funds.
Current Year Property Tax:	N/A
Approved By:	CHE on 11/15/10; JBRC on 02/02/11

Information relating to this matter has been retained in these files and is identified as Exhibit 10.

***Medical University Hospital Authority: Medical University Hospital Authority Working Line of Credit (Regular Session Item #5)***

Pursuant to S.C. Code Ann. Section 59-123-60, as amended, the Board of Trustees of the Medical University of South Carolina (Board of Trustees) became the governing body of the Medical University hospitals, clinics, and other healthcare and related facilities as shall be determined from time to time by resolution of the Board of Trustees. Section 59-123-60 further provides that whenever the Board of Trustees functions in its capacity as the governing body of such facilities, it is constituted and designated as the Medical University Hospital Authority

(Authority), an agency of the State of South Carolina.

The Authority, pursuant to Section 59-123-60(E)(3)(d), is authorized to issue revenue anticipation notes; provided that such notes have a maturity of not exceeding six months from date of issuance and do not exceed, in the aggregate, ten percent of the net patient service revenue for the fiscal year of the Authority preceding the fiscal year in which such obligations are issued. The issuance of the notes is subject to approval of the Board.

The Medical University of South Carolina (MUSC) advised that audited financial statements reflect that for fiscal year ended June 30, 2010, net patient service revenues were \$980,120,000.

The Authority requested that the Board authorize the State Treasurer to negotiate the terms of the revenue anticipation notes which shall be issued in an aggregate principal amount not exceeding \$25,000,000 and shall have a maturity of not exceeding six months from the date of their issuance. The Authority also requested that the Board authorize the Treasurer to negotiate other terms and conditions of the revenue anticipation notes and to approve all documents related thereto to which the Authority is a party. The Authority further requested that the Board authorize the Treasurer to negotiate the terms and conditions of one renewal of such anticipation notes during the 2011-2012 fiscal year, such renewal not exceeding six months.

Upon a motion by Mr. Loftis, seconded by Senator Leatherman, the Board adopted a resolution on behalf of the Medical University Hospital Authority (1) authorizing the State Treasurer to negotiate the terms of the revenue anticipation notes which shall be issued in an aggregate principal amount not exceeding \$25,000,000 and shall have a maturity of not exceeding six months from the date of their issuance; (2) authorizing the Treasurer to negotiate other terms and conditions of the revenue anticipation notes and to approve all documents related thereto to which the Authority is a party; and (3) authorizing the Treasurer to negotiate the terms and conditions of one renewal of such anticipation notes during the 2011-2012 fiscal year, such renewal not exceeding six months.

Information relating to this matter has been retained in these files and is identified as Exhibit 11.

***State Ports Authority: Port Royal Property (Regular Session Item #6)***

The SC Code of Laws Section 54-3-700 requires certain actions concerning the State Ports Authority (SPA) and its marine terminal at Port Royal consisting of 51.6 acres of highland and 265 acres of marsh (tidelands). In addition to the cessation of marine operations, the statute directs the SPA to sell its real and personal property in Port Royal in a “manner that is financially responsible and advantageous to the State Ports Authority.” Another statutory requirement of the sale is that the property must first be “appraised and then sold at fair market value” on an “open-bid basis, and no bid may be accepted which is less than the property’s fair market value as shown by the appraisal.” Since the property was not sold by December 31, 2009, the property has been transferred to the Budget and Control Board (Board) for sale. The Board is vested with all of the SPA’s fiduciary duties to the SPA and SPA bondholders. The sale proceeds are to be retained by the SPA unless, upon petition by the Town of Port Royal, the Board allocates up to five percent of the funds to pay for infrastructure needs directly associated with and necessitated by the closing and sale of the terminal.

The properties were put out for bid by the SPA in 2007 and one bidder met the minimum criteria. A contract was negotiated, approved by the Board and executed by the SPA. Closing on the sale failed to occur because of the withdrawal of the lender from the transaction due to financial market conditions which were deteriorating rapidly at the time. The property was then placed with a commercial real estate broker who advertised nationally, through a website, and in December 2009 and January 2010 the broker solicited bids or proposals regarding the sale of the property in the state publication, South Carolina Business Opportunities (SCBO). A proposed purchaser initiated discussions through the SPA’s broker and negotiations were ongoing in December 2009. At its meeting on December 15, 2009, the Board authorized the SPA and its staff to serve as agents of the Board and to work with the Division of General Services to continue the effort to market the Port Royal property, effective December 31, 2009. In February 2010, a Letter of Intent for the purchase and sale of the property was executed between the SPA and the purchaser.

A contract was thereafter negotiated with the purchaser, and on May 18, 2010, the SPA approved a resolution for the sale of the Port Royal property, subject to this Board’s approval, upon the following terms and conditions: The property was to be sold in two phases. On September 29, 2010, the Board approved the contract for sale of the Port Royal property as negotiated by the SPA. Board staff has been advised that the contract has since fallen through.

The SPA sought guidance from the Board concerning its responsibilities with regard to the sale of the Port Royal property.

Neil Robinson, attorney for the Ports Authority, appeared before the Board on this item. Mr. Robinson advised the Board that he has represented the Ports Authority in this matter for the past four years and that they have been trying to sell the property since that time. He noted that the same came at the wrong time for the real estate market. He noted that there have been two deals that have been brought to the Board and approved by the Board for sale and both deals failed to consummate as a result of the current economic conditions. He stated that he seeks the Board's approval to allow the Ports Authority to continue its marketing effort by using the broker that has been successful in bringing the first two prospective buyers to the Ports Authority.

Mr. Cooper asked Mr. Robinson whether he thought he could find a buyer for the property this time. Mr. Robinson said the issue is complicated because it is an "as is" "where is" sale of a former marine terminal that has a lot of old infrastructure. He pointed out that there is extreme cost in tearing out the old infrastructure and that there is only 50 acres of high ground. He stated that this is the lifeline for the Town of Port Royal and that the town has been suffering dramatically since the terminal closed. He said the terminal blocks the waterfront from any use and to find someone who can put the kind of money into place to do the public improvements and the development is very difficult in this market.

Senator Leatherman said that he would like to see the Ports Authority continue to market the property. He said the Ports Authority went about the matter in a very logistical way before and came up with what they thought was a buyer under contract. Governor Haley noted Senator Leatherman's motion to have the Ports Authority continue to market the property.

Mr. Loftis inquired of Mr. Robinson whether there was any litigation or thought of litigation concerning the tidelands portion of the property. Mr. Robinson said the Ports Authority has title to the marshland by virtue of a state grant that was given many years ago and has passed down with the property. He said there is no plan to do any construction in the marshland. He said the marshland adjacent to the property to be sold would pass with the title to the property. Mr. Loftis asked whether that was part of the appraised value of the property to which Mr. Robinson said that it would be. Mr. Loftis asked whether there was some controversy

concerning the tidelands. Mr. Robinson said that some people had been building docks across the marsh not knowing that the Ports Authority actually owned the marsh. He said there were permits granted for those docks and that the Ports Authority did not realize that at the time and found out about it when the title review was being done to sell the property. He said there was some litigation brought, but he believes that has been resolved. Mr. Robinson further stated that there is no other opportunity for anyone else to build on the property that is adjacent to the marsh. Mr. Loftis said that he was interested in this matter because of another issue that is coming up.

Senator Leatherman asked whether the property would be marketed with the same covenants and restrictions that are currently there for green space and parks. He also asked that in order to change those things whether the developer would have to go back to the Town of Port Royal and the Ports Authority for approval. Mr. Robinson said Senator Leatherman was correct and the sale of the property is subject to the development agreement. Senator Leatherman noted that the agreement would stay in place no matter who buys the property. Mr. Robinson said that the agreement would stay in place unless changed by mutual agreement of the parties. He also noted that they hope to extend the agreement because it only has about eighteen months left on it.

Mr. Eckstrom asked whether the commitments expressed in the development agreement remain in effect, particularly the public use commitments. Mr. Robinson said they do remain in effect and the Ports Authority has no intention at this time to ask for any changes for those terms. He said they would only be looking to extend the time so that it does not expire at the end of June 2012. Mr. Eckstrom further asked how long it will take to remarket the property and come to terms with the developer before the development agreement expires. He also asked what would happen if the development agreement expired. Mr. Robinson said the property would still be zoned, but there would be no the agreement in place that requires the construction of certain public facilities that are currently in the development agreement. He said it would still be zoned to allow construction of single-family and multifamily structures, a hotel, and shops. He said there would be no agreement as to how that would take place. Mr. Eckstrom further asked who is responsible for constructing the waterfront infrastructure. Mr. Robinson said the master developer is responsible and the Ports Authority is currently the master developer. He noted that until title passes to a buyer the obligations of the development agreement are those of the Ports

Authority. He stated that if the agreement is not extended the Ports Authority will have to perform certain parts of the infrastructure by January 2012. Mr. Eckstrom asked what the Ports Authority's investment would be in the infrastructure construction if it had to do the construction. Mr. Robinson said that all of the public facilities were estimated to cost around \$12 million. Mr. Eckstrom asked whether the source of funds would be the sale of the property. Mr. Robinson said it would be that or either traditional investment financing.

Mr. Eckstrom also stated that there was a great deal of discussion between the Ports Authority and the prospective buyer in which the prospective buyer was not willing to go forward with the park. Mr. Robinson acknowledged that the recent potential buyer was negotiating with the Town of Port Royal about some changes, but the Ports Authority was not involved in those discussions. Mr. Eckstrom asked whether the Ports Authority was willing to amend the development agreement. Mr. Robinson said the issue was not brought back to the Ports Authority and that to his knowledge there was never an agreement between the Town of Port Royal and the prospective buyer to reduce the size of the park or relocate it. He said that would have to come back to the Ports Authority for approval.

Mr. Loftis asked how the real estate company has marketed the property. Mr. Robinson said the real estate company has literally marketed the property world-wide by emailing brochures, sending out hardcopies, and publicizing it in all manner of publications to which developers subscribe. He noted that there has been a good deal of interest in the property and would be a good development if the timing was right. Mr. Robinson said that he has every confidence that the real estate company will identify additional buyers.

Upon a motion by Senator Leatherman, seconded by Mr. Loftis, the Board approved the State Ports Authority's request to continue marketing the Port Royal property.

Information relating to this matter has been retained in these files and is identified as Exhibit 12.

***Continued Discussion– Department of Health and Human Services (Regular Session Item #2)***

Senator Leatherman noted that with regard to the DHHS deficit he should have mentioned earlier that there is a proviso that spells out how the Board takes action and what happens to that action afterwards. He said the General Assembly is notified of the action the



Board took and the General Assembly has a period of time to respond to the Board's action or let it stand. He asked Mr. Evans to explain the proviso and what the next steps are. Mr. Evans explained that there is a statute and temporary proviso that outlines the framework for dealing with an agency deficit. He said once the Board recognizes a deficit as it has done with Corrections and DHHS there is additional notification to the two legislative chambers of the recognition of the deficit. He noted that the opportunity then exists for the General Assembly to take whatever legislative action it may choose to take. He said the General Assembly could preempt the Board's action, supplement it, or conform to it. He further explained that if there is no action by the General Assembly as the fiscal year ends the funding to underwrite the deficit recognition or amount comes from the funds then available for the general fund and any reserve funds that may be necessary to help underwrite the deficit. He said the matter does pend before the General Assembly for any action it may want to take between now and the end of the fiscal year.

### ***Future Meeting***

Mr. Eckstrom asked that for future Board meetings a table is found that is similar to the one the Board has always met around so that they can face one another and engage in dialogue. He said the Board does not convene to make presentations and it should provide ample communication to the public. He said, however, at the core of the Board is the opportunity for five state officials to get together to engage in dialogue. He said that sometimes that dialogue is full agreement and sometimes not, but that is the process that has served the State well. He observed that a straight table does not lend itself to the type of discussion in which the Board members have traditionally engaged. He said the Board should look into having a table set up. Senator Leatherman said he agreed with Mr. Eckstrom. He said he likes to be able to look at people when they discuss an issue and read their body language. He said that really cannot be done with the present setup. He commented that that must be done while still allowing the public access to the Board meetings. Mr. Loftis said he agrees, but whether the Board members are comfortable or not is secondary. He said the Board has got to provide transparency in government. He noted that the room was full and people were standing outside. He stated that the Board members may not have been able to see each other, but the public was able to see the

Board. Mr. Loftis said that the Board conducted its business well and that a lot of difficult issues were brought up and the Board members did not suffer because they did not have a table. He said if a room can be found that will be fine, but they have looked and no other rooms are available. He noted that there were rooms where money could have been spent to change doors, but he did not think it was right to spend \$6,000 to do that when DHHS could use that money better than the Board. He said he agrees to finding a better room if one can be found, but the Board has to make a commitment to transparency. Mr. Loftis said it is ridiculous that these meetings have been held in a room for the last 30 years that the average PTA meeting would not have been held. He said he will fight as long as he must to keep a crowd of people at the meetings so everyone can see what goes on in the meetings. He said this is the core of state government and everyone needs to know about it.

Mr. Eckstrom said in further discussion that his thought was not that he was looking for creature comforts in a room, but that it would enhance the Board's effectiveness for the members to be able to talk among themselves as well as to have their staffs more accessible. He noted Mr. Loftis had to look for Mr. Evans and until Mr. Loftis looked for Mr. Evans Mr. Eckstrom thought Mr. Evans was in the audience. He stated that Mr. Evans is always an integral part of the Board's discussions. He said it is the other side of transparency when it is made difficult to engage in the sort of public discussions the Board has traditionally had.

Mr. Eckstrom asked as a matter of Board protocol that the changes in Board meeting arrangements be done at Board meetings and not be done between Board meetings unilaterally. He said that is how the Board has operated and that it is not a matter of transparency, but a matter of courtesy shown to each Board member. Governor Haley said they all are trying to get to the same place and make sure there is transparency, but at the same time there are logistics that have to be worked out. Governor Haley asked Ms. Kitzman to find a room with a table and make sure that the room is big enough to hold as many people as necessary. Senator Leatherman further commented that to him it is not a matter of whether the Board members are comfortable, but a matter of the Board members being able to understand each other and their reactions and reach the best conclusions they can for the people of this State. He said that he is not trying to shut anyone out, but there must be a room where the Board can meet and look at each other. Senator Leatherman strongly urged Ms. Kitzman to search around to find a room that will

accommodate the public and allow the Board members to make the very best decisions that they can for the people of the State.

The Board directed staff to coordinate the scheduling a meeting in March.

***Adjournment***

The meeting adjourned at 11:40 a.m.

[Secretary's Note: In compliance with Code Section 30-4-80, public notice of and the agenda for this meeting were posted on bulletin boards in the office of the Governor's Press Secretary and in the Press Room, near the Board Secretary's office in the Wade Hampton Building, and in the lobbies of the Wade Hampton Building and the Solomon Blatt Building at 9:25 a.m. on Monday, February 7, 2011.]